

Message Text

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ACTION NEA-10

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 4377

INFO AMEMBASSY BEIRUT

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

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FROM GERLACH

E.O. 11652: NA

TAGS: USEGJC EINV EFIN EG

SUBJECT: DEVELOPMENTS ON THE BANKING FRONT:

AMERICAN EXPRESS OPENS BRANCH

REF: CAIRO 1477

SUMMARY: BY IGNORING OBSTACLES, AND SOME EGYPTIAN
LAWS AS WELL, AMERICAN EXPRESS INTERNATIONAL HAS OPENED
ITS FOREIGN CURRENCY (OFFSHORE) BRACH IN CAIRO. EVENT,
WHICH IS A MILESTONE IN OPEN DOOR, INDICATES THAT BUSINESS
CAN PERHAPS BE DONE HERE DESPITE PROBLEMS THAT EXIST.
THERE IS STILL A QUESTION AS TO FUTURE OF OPERATION
SINCE GOE HAS ALREADY MOVED TO LIMIT FIELD OF ACTIVITIES,
BUT TIMING OF OPENING, JUST AS SADAT REGIME IS FOCUSING
ON NEED TO GET THINGS GOING ON INVESTMENT FRONT, MAY
OPERATE IN AMEX'S FAVOR. END SUMMARY

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1. IN MOVE THAT SURPRISED MANY PEOPLE, BUT WHICH IS TYPICAL OF ITS OPERATIONS SINCE ARRIVING ONLY RECENTLY ON LOCAL SCENE, AMERICAN EXPRESS INTERNATIONAL OPENED A FOREIGN CURRENCY BRANCH ON MAY 26. OPERATION THUS FAR CONSISTS OF DESKS AND CHAIRS IN A HALLWAY FOR COMPANY'S SEVEN EMPLOYEES, BUT UNLIKE MANUFACTURERS HANOVER, WHICH HAD SPLASHY RECEPTION TO MARK ITS OPENING AND HAS NOT YET STARTED UP, AMEX IS ACCEPTING ACCOUNTS, SOLICITING OTHERS, AND IS IN BUSINESS.

2. SECRET OF SUCCESS APPEARS TO BE UNWILLINGNESS OF MAN IN CHARGE, JAMES J. MCKEE, TO BE DETERRED BY DELAYS AND OBSTACLES THAT HAVE THUS FAR DEFEATED OTHERS. WITH ENERGY, DETERMINATION (AND LOSS OF FORTY POUNDS) MCKEE HAS QUIETLY PURSUED OBJECTIVE OF BEING FIRST OFF THE MARK WITH FULL RANGE OF OFFSHORE BANKING SERVICES, AND HAS SUCCEEDED (THUS FAR). IN SO DOING, HE HAS IGNORED VARIOUS ASPECTS OF INVESTMENT LAW, IN PARTICULAR REQUIREMENT THAT OFFSHORE BANKS REGISTER WORKING CAPITAL WITH CENTRAL BANK BEFORE BEGINNING OPERATIONS. (THIS REQUIREMENT IS LEFT OVER FROM PRE-NATIONALIZATION DAYS, AND IS ANACHRONISM THAT DOES NOT REALLY FIT PRESENT SITUATION. OFFSHORE BANKS DO NOT DEAL IN POUNDS, AND DO NOT KEEP FUNDS IN EGYPT. FREE ZONE BANKS ARE NOT SUBJECT TO SAME RESTRICTIONS, AND HAVE VIRTUALLY NOTHING TO DO WITH CENTRAL BANK, SINCE THEY THEORETICALLY ARE NOT IN EGYPT.) MCKEE HAS EMPLOYED TECHNIQUE CALLED "ROUND ROBIN" TO PROVIDE HIS BANK WITH FUNDS WITHOUT EXPOSING CAPITAL TO RISKS ASSOCIATED WITH BRINGING THEM INTO EGYPT: \$2.5 MILLION WERE TRANSFERRED FROM NY TO CAIRO BRANCH, WHICH THEN DEPOSITED SUM IN LONDON OFFICE. HE INTENDS TO INFORM CENTRAL BANK OF THIS SITUATION AFTER REASONABLE PERIOD, ON ASSUMPTION THEY WILL NOT FIND IT OUT BY THEMSELVES BEFOREHAND, AND WILL BRING MONEY IN IF IT IS ONLY WAY TO STAY IN BUSINESS.

3. MCKEE HAS LEFT OTHER QUESTIONS FOR EVENTUAL RESOLUTION, SUCH AS SALARIES PERMITTED FOR LOCAL EMPLOYEES, AND CURRENCY TO BE USED IN PAYMENT, SUBJECTS THAT ARE PART OF NEW LAW GOE IS IN ACT OF PREPARING FOR TOTAL REVISION OF BANKING SYSTEM AND WHICH HAVE BEEN SOURCE OF POTENTIAL LIMITED OFFICIAL USE

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PROBLEMS THAT NECESSITATED REVISION. (FOREIGN BANKS, INCLUDING JOINT VENTURES, WILL PAY VASTLY LARGER SALARIES THAN LOCAL BANKS, WHO JUSTLY FEAR A MAJOR EXODUS OF THEIR BEST EMPLOYEES WHEN DOORS OPEN.) HE HAS ALSO CHOSEN TO IGNORE BLOCKAGE OF OFFICE EQUIPMENT IMPORTS BY CUSTOMS AUTHORITIES DEMANDING LARGE DUTIES AND TAXES, FACT THAT COMPANY CAR FOR HIS USE HAS BEEN STUCK IN ALEX FOR SEVERAL MONTHS FOR SAME REASON, DAMAGE TO HIS PERSONAL

EFFECTS RESULTING FROM THEIR BEING SPREAD AROUND AIRPORT AFTER ARRIVAL AND THREE DAYS HE SPENT IN GETTING EVERYTHING BACK TOGETHER, INABILITY TO FIND PERMANENT OFFICE SPACE, AND USUAL LITTANY OF COMPLAINTS THAT ACCOMPANY EFFORTS TO GET THINGS GOING IN EGYPT.

4. AMEX CHOSE TO CONCENTRATE ON OFFSHORE OPERATIONS SINCE DIFFICULTIES OF GETTING JOINT VENTURE STARTED ARE STILL INSURMOUNTABLE. (CHASE MANHATTEN HAS FIXED TARGET OF JULY 9 FOR OPENING OF THEIR JOINT VENTURE, BUT SINCE QUESTION OF PROTECTING REQUIRED \$10 MILLION CAPITAL INVESTMENT REMAINS TO BE SETTLED, IN ADDITION TO NUMBER OF OTHER MAJOR PROBLEMS, THIS DATE APPEARS OPTIMISTIC.) MCKEE REPORTS HE HAS ALREADY OPENED SEVERAL ACCOUNTS WITH NUMEROUS ADDITIONAL APPLICATIONS WAITING ONLY FOR OPPORTUNITY FOR STAFF TO PROCESS THEM, IS WORKING ON A NUMBER OF SIZEABLE FINANCING TRANSACTIONS, AND CONSIDERS HIMSELF FULLY IN BUSINESS.

5. COMMENT: AMEX HAS CREATED A BRIGHT SPOT IN THE OTHERWISE UNREALIVELY DISMAL ATMOSPHERE OF THE FOREIGN INVESTMENT ENVIRONMENT IN EGYPT. TIMING IS PERFECT, COINCIDING WITH MAJOR EFFORT OF GOE TO GET THINGS MOVING AT LAST. THIS MAY BE A FACTOR IN GETTING CENTRAL BANK TO OVERLOOK SHORTCUTS (AND WORSE) TAKEN BY MCKEE, BUT BANK IS CONSIDERED TO BE ONE OF MAJOR HURDLES FACING EFFECTIVE OPERATION OF FOREIGNERS INTERESTED IN OPENING UP BANKING SECTOR.

6. AS EXAMPLE, CENTRAL BANK HAS ALREADY INFORMED MCKEE THAT HE IS TO LIMIT HIS OPERATIONS TO MERCHANT AND INVESTMENT BANKING; AMEX IS NOT A COMMERCIAL BANK AND IS NOT TO COMPETE WITH EGYPTIAN BANKS IN SOLICITING ACCOUNTS. PURPOSE OF LIMITED OFFICIAL USE

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AMEX IS TO FINANCE PROJECTS, ENCOURAGE OUTSIDE DEPOSITS, AND ENGAGE IN IMPORT-EXPORT ACTIVITIES. THIS IS A NEW WRINKLE IN INTERPRETATION OF INVESTMENT LAW, AND REPRESENTS, IN EMBASSY VIEW, AND EXPRESSION OF FEAR IN LOCAL BANKING CIRCLES (WHICH IS ENTIRELY JUSTIFIED) THAT THEY WILL LOSE MAJOR SHARE OF FOREIGN CURRENCY ACCOUNTS TO FOREIGNERS. PROPOSED CHANGES IN BANKING LAW WILL REPORTEDLY PERMIT EGYPTIAN BANKS TO COMPETE MORE EFFECTIVELY, BUT TIME WILL BE REQUIRED TO ENACT AND IMPLEMENT LAW. IN MEANTIME, CENTRAL BANK WILL CONTINUE TO OBSTRUCT OPERATIONS, AND CREATION, OF FOREIGN AND JOINT-VENTURE BANKS.

7. AMEX HAS THUS BEEN TOLD THAT IT CANNOT ACCEPT FOREIGN CURRENCY DEPOSITS UNLESS CENTRAL BANK CERTIFICATION AS TO SOURCE OF FUNDS IS OBTAINED. THIS RESTRICTION DOES

NOT APPLY TO ARAB INTERNATIONAL BANK, WHERE MAJOR SHARE
OF BLACK-MARKET HARD CURRENCY IS DEPOSITED AND TRANSFERRED
OUT OF EGYPT.

8. EXCEPT FOR SELF-IMPOSED RESTRICTIONS SUCH AS
MINIMUM SIZE OF ACCOUNT (\$10,000) AND NECESSITY FOR
INVOLVEMENT OF INDIVIDUAL IN SOME FORM OF EXTERNAL
BUSINESS, AMEX HAS IGNORED CENTRAL BANK'S NEW OBSTACLES
AS IT IGNORED OLD ONES. COMPANY REPORTS IT IS OPERAING ON
BASIS DAY TO DAY DECISIONS, BUT IT IS OPERATING. MCKEE
HAS ACHIEVED A RESULT, HOWEVER TEMPORARY, THAT HAS
LIFTED SPIRITS IN CAIRO.
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